



Lloyds Bank Review



JULY 1960



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The Bank is not necessarily in agreement with the views expressed in articles appearing in this Review. They are published in order to stimulate free discussion and full inquiry.

Towards a European Solution

By Baron Snoy et d'Oppuers

IS Europe already divided? In reality, the division of which there is so much talk between the Six and the Seven is far from being an accomplished fact in the spheres of trade and payments. The differential tariffs applied by members of the Common Market in favour of imports from their partners in the Rome Treaty comprise at present 10 per cent. of the normal duty, which in many cases has been reduced; and the further differential of 10 per cent. which will come into force on July 1st of this year is not in itself calculated to have a really decisive influence on the competitive position of imports drawn from different countries. The same could no doubt be said of the 20 per cent. reduction in tariffs which the members of the European Free Trade Association are to apply in trade between themselves from July 1st.

Nevertheless, Europe is divided in spirit and this is undoubtedly far more serious, since business decisions are being made on the basis of assumptions that the carrying out of the time-tables laid down in the Rome Treaty and the Stockholm Treaty will result in ever-increasing discrimination between the two groups over the coming years. To this has to be added an inevitable element of opposition and rivalry, economic interests tending to crystallize in the imagination of men around two distinct structures within Free Europe. From that, it is only one further step to think of a permanent opposition of interests on the political plane as well, and it is in this fact that the danger of the present situation resides.

How and why is it that Europe, having carried out its post-war reconstruction since 1947 through a great effort of solidarity

Baron Snoy was one of the principal negotiators of the Rome Treaty on the Common Market and Euratom. He was Permanent Secretary of the Belgian Ministry of Economic Affairs from 1939 until recently, when he left to take up an important position in the business world. From 1948 to 1950 he was Chairman of the O.E.E.C. Council and has been Chairman of the Committee of its Steering Board for Trade since its creation in 1952. Baron Snoy was also Chairman of the Council of the Benelux Union from 1944 to 1960.

and of co-operation within the framework of O.E.E.C., has come to this state of affairs.

THE NEGOTIATIONS OF 1957 AND 1958

The negotiations to create a Free Trade Area, associating the European Economic Community with the other members of the O.E.E.C., were decided upon on February 13th, 1957, at a meeting of the Council of the O.E.E.C. At that time, the Rome Treaty had not yet been signed (it was in fact signed only on March 25th of that year) but ever since the Venice Conference of May 30th, 1956, preparations had been in train with the object of associating the six members of the Common Market with their partners in O.E.E.C. These discussions had been going on in a perfectly constructive and normal manner. The six governments of the Venice Conference had issued an invitation to the other European governments to join them or to associate themselves with their enterprise and, this invitation having been welcomed as a means towards a multilateral association by the Resolution of the Council of O.E.E.C. of July 19th, 1956, preparatory work had been put in hand in respect of the technical aspects of the Free Trade Area. Everything was thus ready at the moment of the signing of the Treaty of Rome to enable these negotiations to proceed rapidly and with good chances of success. The Rome Treaty itself, in a special article (Article 238), envisaged this result, and a common Declaration, formally signed at the same time, indicated the intention of the six signatory governments to conclude the necessary arrangements "as soon as the Treaties come into force". It is thus possible to say that the establishment of an association between the Six and the other members of O.E.E.C. formed part of the programme envisaged by the authors of the new initiative in Europe and that it was received with favour by all the other countries of Free Europe.

It is impossible in this article to retrace step by step the course of the negotiations which occupied practically the whole of the two years 1957 and 1958. The final breakdown in December, 1958, may be explained by three kinds of causes.

First of all, the opposition of certain interests, motivated by their traditional protectionism and hostile to the cumulative risks of competition within the Common Market and of further competition within a free trade area, made it particularly difficult for the French government to adopt a positive attitude. Secondly, there were in several of the countries of the Six convinced partisans of European unity who feared that the

political objective of the Rome Treaty would be endangered by an enlargement of the Common Market to include countries in which, they feared, there was less enthusiasm for the European idea. Thirdly, it must be recognized that the negotiations were ill-starred because of errors in tactics on both sides, of difficulties between the Six in deciding their common attitude and of a lack of political leadership. The intransigent position adopted by the French Cabinet on the 15th November, 1958, dealt the final blow to the negotiations.

If one seeks to go to the root of the problem, it seems to me probable that the climate of the negotiations was falsified from beginning to end because the parties were at cross-purposes. It is a fact that the fundamental objective of the Rome Treaty, the aim which ensured the support of the peoples and the Parliaments of the six countries, has always been the progressive creation of a minimum of political unity between their countries. The Common Market of the Six is inconceivable in any other perspective. Now, the countries which desired to be associated with the European Community adopted precisely the opposite approach. They constantly insisted that the objectives they were pursuing were economic and commercial, while neglecting the idea of a political objective or minimizing it as far as possible.

Today, once again, public opinion is led to regard the Common Market Treaty as a political instrument for the progressive unification of Europe, whereas the European Free Trade Association is represented as an undertaking for economic and commercial purposes, while the political consequences which must normally be expected to result from it are generally passed over in silence. It is in these diametric differences of approach that the fundamental cause of the breakdown of the negotiations of 1957 and 1958 is probably to be found. It is therefore the root cause of the division in Europe that we have to deplore today.

To resolve our difficulties, we must first make a correct diagnosis of the situation and clear up dangerous misunderstandings. Can it really be argued that the economic and commercial solidarity of a free trade area would not lead progressively to a political solidarity? Can it really be maintained, on the other hand, that the terms of the Rome Treaty already represent a step along the road to federalism? Does not the insistence of one group on the political side and of the other group on the commercial side hide in each case a part of the truth? These are the questions we have to answer.

ARE THE SEVEN HOSTILE TO A POLITICAL EUROPE?

The fundamental objection advanced by the most ardent partisans of an exclusive Little Europe is that the United Kingdom and the other members of the Seven do not desire political unity in Europe. In support of this thesis they quote passages from the speeches of political leaders, they appeal to the lessons of history, they assert that the governments of the Seven are dominated by purely national aspirations.

It is probably useful to recall that the cause of European unity is everywhere in the hands of a minority of idealists; even within the Six, it would be difficult to claim that nationalistic ideas, tending to place the blame for all difficulties on the outside world, never take precedence over the idea of European solidarity. The governments of the Six are undoubtedly all convinced of the rightness of the European cause and intend to further it; but they know that, in a democratic régime, this has to be done cautiously and with tact. Certainly, one could find within the Six as elsewhere passages in political speeches and appeals to national tradition which are scarcely compatible with the European cause.

It would be difficult, on the other hand, to show that the countries of the Seven and their governments entertained any hostility towards European political unity. If all of them have not taken up explicit positions in this respect, one cannot find in their official positions any real sign of hostility to the idea of European unity, while everybody is free to have his own ideas of the forms which this should take.

On this question, it would be particularly valuable if the arguments advanced by the passionate advocates of European unity were countered by a more definite statement of their position by the governments of the Seven. Let us consider what the signatories of the Stockholm Treaty might say about this question. Creating between themselves an area characterized by the removal of all barriers, they are compelling their industries to develop within a new framework, and it is unthinkable that this could be accomplished in the twentieth century without these countries becoming closely bound to one another by a whole series of social and political links. Moreover, the signatories of the Stockholm Treaty agree to accept, in the functioning of their fundamental institution, the Council of Ministers, a majority decision on a certain number of questions.

By this very fact they show themselves prepared—if only on a limited number of points—to sacrifice something of their

national sovereignty. They tend, through the natural consequences of the free market at which they are aiming, towards an inevitable political solidarity, towards some form of political unity. At the same time, they have formally stated their desire for co-operation and for a close association with the Common Market of the Six, which itself has a political objective. After all that, it may well be asked what prevents the governments of the Seven from stating that they too, like the Six, believe in the political unity of Europe. If it is a question of the forms and methods by which that goal is to be attained which brings them into opposition with the Six, it would be better to state that this is the source of the difficulties. If so, they would not seem to me very serious, provided one is prepared to re-read the Rome Treaty and to recognize its great caution and the gradual evolution that is envisaged for the setting-up of its institutional mechanism.

THE POSITION OF THE NEUTRALS

Among the Seven, there are three neutral countries. One of the objections one hears respecting them is that it would be impossible for a neutral country to pursue the objective of political unity in Europe.

It seems that in this respect, too, the problem is again a problem of definition. The creation of an economic community leads inexorably to a harmonization of monetary and fiscal policies, to a similarity of arrangements in all that concerns the fundamentals of economic life. In this respect, any economic and commercial integration carries with it a minimum of political unity in these fields. This does not mean that there has to be a fusion of external policies or a military alliance. As evidence of this, it is sufficient to consider the vast difference between the projected European Defence Community, rejected by the French National Assembly in 1954, and the Treaty of Rome.

Let us assume that the neutral countries accept the lessons of history and recognize that, on the economic plane, they have to evolve towards a form of integration which implies a close co-ordination of their economic, social, financial, fiscal and other policies with those of their neighbours. Does this mean they are bound to conclude that they are debarred from following a policy of political neutrality? This is really the question which has to be answered before we can decide that neutrality is incompatible with the European unity which it is hoped to bring about in the long run by the creation of an economic infra-structure.

To my mind, the answer is not simple. I like to think that, if it were possible for the neutral countries to become members of O.E.E.C. and as such to agree to the suppression of a whole series of economic barriers, while at the same time taking steps towards the harmonization of basic economic policies, the conditions of the Rome Treaty—which constitutes a new advance along the same road—would be found compatible with the international policy that they have chosen. I would add that, since these same countries have agreed—if only on certain matters—to abide by majority decisions in their relations with their partners in the Stockholm Treaty, the argument that neutrality is incompatible with the European idea seems to me still further weakened.

Are we to suppose that members of the O.E.E.C. other than the Six are more nationalistic in their attitudes than the signatories of the Rome Treaty? Here again, there is no sign of this. It would be well to admit that ideas of national sovereignty, which imply reluctance to accept the sacrifices implicit in European unity, in general raise less difficulty for small countries than for great ones, for those which have known foreign occupation than for those which have happily been free from it. It is, in fact, mainly the larger powers which feel hesitation at limiting their sovereignty in some way for the sake of allying themselves more closely to other nations; but it is difficult to believe that in this field, taking account of tradition and of national psychology, it would be more difficult for the United Kingdom to accept a régime of integration than for France. The French government has in fact adopted a policy which indicates clearly that it considers national greatness and a European policy perfectly compatible with each other.

THE COMMERCIAL CONSEQUENCES OF THE COMMON MARKET

How far has the entry into force of the Common Market Treaty distorted the normal pattern of trade within Europe or adversely affected other European countries?

The statistics for 1958 and 1959 hardly demonstrate the existence of a fundamental tendency operating in this direction. Up to now, however, the tariff preference resulting from the Rome Treaty has been limited to 10 per cent. of the existing duties. It must be emphasized that in the matter of quotas the action of O.E.E.C. and of G.A.T.T., as well as the return to convertibility, have led all the European countries towards a quasi non-discriminatory attitude. As a result, the effect of

preferences has been negligible for the whole period covered by the available statistics.

On the whole, the following tables, showing trade between European countries, reflect influences deriving from changes in the general level of business activity rather than from the Rome Treaty.

It will be seen from the tables that the trade of the United Kingdom with Germany has shown a continuous growth since 1955. Both imports from and exports to France have been falling for two or three years past, but this could be simply a reflection of the French balance of payments difficulties and monetary situation. As regards Italy, British exports reached a maximum in 1957 and then declined in 1958 to recover in the

U.K. Trade with Common Market.

E.E.C. IMPORTS FROM U.K.

<i>Destination</i>	1955 \$m.	1956 \$m.	1957 \$m.	1958 \$m.	1959 \$m.	% Change 1958/59.
Belgium/Lux.	240	265	280	232	287	+ 24
France	184	231	229	198	192	- 3
Germany	206	257	266	319	385	+ 21
Italy	145	171	195	174	185	+ 7
Netherlands	273	305	330	268	298	+ 11
Total E.E.C.	1,048	1,229	1,300	1,191	1,347	+ 13

E.E.C. EXPORTS TO U.K.

<i>Origin</i>	1955 \$m.	1956 \$m.	1957 \$m.	1958 \$m.	1959 \$m.	% Change 1958/59.
Belgium/Lux.	177	202	177	174	195	+ 12
France	358	278	278	251	251	-
Germany	245	300	335	348	396	+ 14
Italy	135	139	159	173	217	+ 25
Netherlands	332	335	337	383	387	+ 1
Total E.E.C.	1,248	1,253	1,286	1,329	1,445	+ 9

following year, without, however, reaching the previous peak. By contrast, Italian exports to the United Kingdom increased considerably in 1959. As for trade between the United Kingdom and Benelux, this was adversely affected by the recession in 1958 but the fall was largely recovered in 1959.

In general, comparison between the years 1958 and 1959 indicates a considerable improvement in the level of trade over the past year. There was, however, a larger increase in the imports of the Six from the United Kingdom than in Common Market exports to Britain. In this connection, it is interesting to compare changes in the trade of the E.E.C. countries with the whole of the E.F.T.A. countries, on the one hand, and with the total trade of the E.E.C. on the other hand.

The following table brings out the considerable increase in the metropolitan trade of the six countries, amounting to 19 per cent. between 1958 and 1959—a considerably greater expansion than that shown by the trade of the Seven. Both imports and exports participated in this rapid rate of increase. On the other hand, the expansion in the trade of the associated territories is far less marked. It would be dangerous to deduce any fundamental tendencies from these figures, since the period they cover is far too short.

It has, however, been affirmed that the tariff arrangements of the Treaty of Rome, and particularly the accelerated timetable adopted in May, 1960, by the Council of Ministers, would

Trade Between Common Market and E.F.T.A. Countries.

		1955 \$m.	1956 \$m.	1957 \$m.	1958 \$m.	1959 \$m.	% Change 1958/59.
Trade between E.E.C. Countries (Metropolitan areas only).		5,647	6,436	7,154	6,863	8,168	+ 19
Trade between E.E.C. Metropolitan areas and total E.E.C. Countries (including overseas territories).	Imp.	6,944	7,784	8,550	8,330	9,429	+ 13
	Exp.	7,027	7,830	8,857	8,722	9,867	+ 13
Trade of E.E.C. Metropolitan areas with E.F.T.A. Countries	Imp.	2,985	3,503	3,759	3,597	3,891	+ 8
	Exp.	4,202	4,486	4,926	4,943	5,415	+ 10

give rise to serious distortions in European trade. This question deserves specific examination, product by product, and at the present stage it is practically impossible to do this. Even so, the following table may be of interest. It shows, for Benelux, the changes in some duties which may result from the acceleration of the Common Market time-table:

Products	Tariff in force 1.1.1957	Tariff of the E.E.C.	Duty applicable on 1.7.1960 between E.E.C. countries.	Common External Tariff 1.1.1961.
	%	%	%	%
Raw Tobacco	9	30	6.3	13.5
Dyes	—	17	—	4.1
Kraft paper	14	18	9.8	14.4
Furniture	10	18	7	11.3
Woollen cloth	24	16	16.8	20.6
Cotton cloth	12	17	8.4	13.6
Machine tools	6	12	4.2	7.2
Passenger cars	24	29	16.8	24
Automobile parts	6	19	4.2	9.9

The examples in the above table are obviously and inevitably arbitrary. Nevertheless, the table shows in general that an acceleration of the Common Market time-table would in some cases mean an increase in the duties at present imposed by Benelux on imports from countries outside the Common Market. In the case of woollen cloth, the common external tariff is actually lower than the Benelux tariff, leading to a reduction in import duties. At the other extreme, the most serious case is that of automobile parts, where the duty applicable is increased by 66 per cent.

The more rapid reduction in customs tariffs between members of the E.E.C. clearly tends to increase the preferential treatment enjoyed by their products; but this results essentially from the dismantling of international tariffs within the Customs Union and, in spite of the acceleration in the time-table, this movement remains relatively slow and progressive. It must thus be emphasized that the offer of negotiations made by the

E.E.C., and accepted in Lisbon by the E.F.T.A. countries, will probably permit discussion of items where the difference in treatment would normally mean a large widening of the preference. The effects on trade of the dismantling of tariffs envisaged in the Rome Treaty, and of the earlier entry into force of the common external tariff, could thus be more limited at the present stage than is often supposed.

This is not to deny that the creation of the Common Market would lead to some diversion of trade. It is indisputable that business leaders in the Common Market and elsewhere may be led to adopt a planning of investment and of development for their industries which takes account in a particularly narrow way of the new framework within which intra-European trade will be conducted. Since they are satisfied that all tariffs and other barriers to trade between their former national markets will disappear, business leaders in the Common Market countries have in fact judged it necessary to adapt their productive resources to this transformation in the scale of the market; and, by the very fact of the investment programme which they have chosen, they have given a new impetus to the internal and external trade of the Community.

Normally, this would not have important adverse effects for outside countries, since this investment policy constitutes an influence tending to increase imports of all kinds—machinery as well as raw materials—from the outside world.

It is equally true that the prospect of the large international European market created by the Rome Treaty holds out attractions to foreign investment. This has in fact been reflected in the greatly increased interest shown by international enterprises, European as well as American, prompting them to find or to establish new bases in the Common Market. But, here again, what is in question is an expansive influence, the benefits of which will undoubtedly be very great for the internal economies of the Common Market but no less advantageous to the outside world.

Can it be maintained that in the future the outside world will nevertheless be adversely affected? Examination of previous cases, like that of Benelux or even the Commonwealth régime of Imperial Preference set up in 1932, suggests that this would be difficult to prove. It is true that in economic matters it is seldom possible to isolate the effect of a single factor in the general situation, and it is therefore not very convincing for the Seven to put forward constantly the argument about discrimination. The opposite point of view on this question seems

to me equally valid and I do not think that it is possible to accept as conclusive, except for some specific products, the argument based on discrimination. Only experience in future years can settle the argument.

THE PROBLEM OF THE COMMONWEALTH

In the course of the O.E.E.C. negotiations in 1957 and 1958, it became apparent that the British government attached overriding importance to its freedom of action with respect to tariffs, with a view particularly to maintaining the Imperial Preference régime of the Commonwealth. All the same it agreed, in the second phase of the negotiations, to discuss with the other members of O.E.E.C. the repercussions which Imperial Preference might have on the creation of a free trade area in Europe. The other members of O.E.E.C. did not feel inclined to accord to the United Kingdom the double benefit of becoming part of the European economy and at the same time part of the preferential system of the Commonwealth. The question was not fully thrashed out, the breaking-off of the negotiations having supervened.

A similar debate would no doubt have taken place, not only on Imperial Preference, but also on the fourth part of the Rome Treaty, which deals with the relations of the Six countries with their associated overseas territories. I feel no doubt that, on examination, the negotiators would have discovered great similarities between the system of the Rome Treaty and the system of the Commonwealth. The provisions of the Rome Treaty in fact envisage preferential import entirely free of duty for products coming from the associated territories, in the same way that the United Kingdom imports free of duty numerous products coming from the Commonwealth. The E.E.C. envisages a development fund and an investment programme for the associated territories; in the same way, the United Kingdom participates in the Colombo plan and helps to finance capital formation in those territories for which it has special responsibilities.

The Rome Treaty lays down that the associated territories are to adopt a non-discriminatory régime of import for goods coming from the various countries of the Common Market. On this point, the Treaty is more generous than the arrangements for mutual preference agreed at Ottawa; but it is permissible to ask whether the United Kingdom will not be compelled, sooner rather than later, to agree to abandon its preferential

position in the markets of the Commonwealth countries, in any case of the less developed countries.

Given this similarity between the provisions of the Rome Treaty and the Commonwealth system it might well be suggested that the existence of Commonwealth ties, far from presenting a difficulty in the association of the United Kingdom with the Common Market, could actually prove an advantage.

THE AGRICULTURAL PROBLEM

At the beginning of the negotiations, when the British government presented in February, 1957, its own conception of a free trade area embracing all the member countries of O.E.E.C., agricultural products were for practical purposes excluded from this common market. This position was undeniably open to negotiation and discussion, and at the end of 1958—the point at which the *Ockrent* Memorandum put forward by the Six in the name of the Common Market took up a different position—it was generally admitted that the British delegation had not said its final word on the question of agricultural products. It is obviously difficult to establish a common market between some countries which are regular importers of agricultural products and others which have large agricultural exporting interests, while excluding agricultural products from the operation as a whole.

In the eyes of the negotiators in Paris, the explanation of the position taken up by Britain was clear. Two sets of considerations were involved: on the one hand, the particular form of protection by means of subsidies that the British government had granted the farmers and the strong political influence of the farming interests; on the other hand, the problems raised in respect of import duties on agricultural products by the Imperial Preference system. It is probable that, if there had been the political will for the negotiations to succeed, a solution would have been found. Indeed, the same problem confronted the British when they created the E.F.T.A.; in this grouping, too, some countries have dominant interests as exporters of agricultural products and could not accept the idea of a common market limited to industrial products. The difficulty has been resolved by arrangements for agricultural products which include, within the system of organized markets which is now general for agricultural products in all the countries of Europe, agreed quotas for the exporting countries.

Is there—and this is the question we have to ask ourselves

at this stage—a fundamental difference between the solutions adopted in respect of agricultural products in the Common Market and in the Free Trade Association? In the common market system, the removal of quantitative restrictions and of customs duties for agricultural products are clearly laid down; but the signatories of the Rome Treaty know perfectly well that it is not sufficient to deal with quotas and tariffs on agricultural products to ensure freedom of movement for them. For a long time, there has been a system of organized marketing for this product or the other: to create a common market for agricultural products means simply to create a market organized along common instead of national lines.

The difficulty of this task was recognized in the Rome Treaty, and the transitional periods allowed for the creation of the common agricultural market are by implication longer than the twelve or fifteen years envisaged as a general rule. Since the Common Market came into effect, numerous negotiations have taken place between the agricultural interests of the Six countries and the European Commission. These have resulted in a statement which has shed light on the situation without, however, throwing up any particularly rapid and constructive solutions. The fact that it is recognized that the normal methods of economic liberalism do not hold out the solution is nevertheless an important contribution towards defining the limits of the problem and keeping it within bounds.

The solution adopted in the E.F.T.A. in respect of agricultural products is a different one. Markets for agricultural products organized on national lines are retained but exchanges of produce are provisionally agreed which are sufficiently large to safeguard the positions of the different national interests concerned. This method is strictly transitional. One day it will have to be replaced by something more coherent and more constructive if it is desired to ensure that the problem of trade in agricultural products does not become too great and does not extend progressively to the products of the food industries, as well as having reactions on the cost of living. For these reasons, I feel it can be stated that the solution adopted for agricultural products in the E.F.T.A. is no more than a temporary one, that sooner or later principles will have to be adopted similar to those accepted in the Common Market. I do not think that the problem of Imperial Preferences need complicate this too much. I do not see, therefore, in this particular difficulty, an insurmountable obstacle to a workable method of association between the Six and the Seven.

HOW AVERT THE DIVISION OF EUROPE?

Having examined the principal ideas which have been invoked so frequently, and apparently wrongly, in opposition to negotiations between the Six and the other members of O.E.E.C., let us consider what now has to be done in order to establish the bridge which is so much desired between the two groups. In other words, how are we to get out of the present impasse?

The first problem is undoubtedly to have the political will to break the deadlock, and in this connection the first essential is to recognize the finality of the whole European construction. If Europe recognizes the need to unite and to rise above her historic differences, it is because she is well aware of the congenital weakness resulting from her partitioning into small national units. It is because she wishes once again to exercise the civilizing influence in the world which she possesses and of which she is mindful; she wants to make her voice heard again in the concert of nations and to influence the course of history. Nobody denies that Europe still has many truths to give the world, many gifts making for the happiness of mankind. If the voice of Europe is to be heard, she must possess the power which is indispensable if her voice is to be loud enough.

It is against this background that the only possible solution is unified action by all the countries of Europe. Can this united action be limited to six among them? It is sufficient to put the question and to understand history to realize that such a solution is incomplete and insufficient, that this limited unity is no cause for satisfaction, other than as one step along the road already achieved. Looking ahead, however, what we want is a complete Europe, that is to say the unity of the whole of Free Europe. To bring this about while taking account of the particular interests of each country, of the extent to which each country can contribute to its evolution, it is obviously necessary that the initiative of the Six countries be regarded as something which is capable of extension to the rest of Europe. The association envisaged by the Rome Treaty, and stated to be desirable in the declaration of the signatory governments, necessarily remains, therefore, the objective to be pursued; and it has to be achieved rapidly.

If it is impossible for the other members of O.E.E.C. to accept the solutions of the Rome Treaty, it is imperative all the same that they should analyse the Treaty carefully and that each of them should state exactly what are the difficulties they encounter. We have to get away from general ideas and

gratuitous affirmations and ask the more precise question: what are the specific difficulties?

It is also necessary that the Six, for their part, should stop making excuses for pursuing national policies under the pretext of following a European policy. National separatism cannot be allowed to annexe the European cause and, on this issue too, clarity must be brought into the debate.

If Europe is a specific problem one cannot, as the Commission has proposed in one of its memoranda, look for world-wide solutions to European problems. Why should this be attempted? Doubtless because the other countries of Europe have invoked purely commercial considerations. If that is the approach, one is bound to agree that world-wide solutions are in principle possible; it is only if the appeal is to political considerations that the solution has to be a European one.

THE POLITICAL REQUIREMENT AND THE ROLE OF THE U.K.

Objections to a policy of associating the Six with other European countries based on the supposed hostility of the latter to the political unity of Europe have been directed principally against the United Kingdom. In consequence, it seems to me essential that the political objective of the United Kingdom should be stated in the clearest possible way, so as to make it impossible for a policy of enlarging the circle of the Six to be rejected on the excuse that the traditional policy of the United Kingdom is to maintain a divided continent.

This striving for European unification which seems to me indispensable in the case of the United Kingdom is clearly the key to the international political problems of our time. It is difficult to imagine that there could be any doubt that this in fact is the goal, all the more as the support of the United States of America is undoubtedly being given to the political unification of Europe.

One of the misunderstandings which have arisen in recent years derives from the ambiguity which exists about the forms the political unity of Europe should take. It is essential to realize that the Rome Treaty does not deal with this question in any way, and in particular that it makes no declaration either for or against federalism. Its institutional system leaves an enormous amount of flexibility as to the course customary developments will take¹, and this great flexibility ought, in my

¹ For instance, the balance of power between the Commission and the Council, the competence of the Assembly, the Economic and Social Committee, etc.

opinion, to be welcomed by all those who are faced at the same time by their national preoccupations and by the conviction that it is necessary to rise above them.

The declaration made in Paris on June 2nd by Mr. John Profumo, Minister of State, indicating the readiness of the British government to consider joining the European Atomic Community and the European Coal and Steel Community, could represent an important step on the way towards a solution of the problems of Europe. It is in fact clear that the full participation of the United Kingdom in the two great Communities administering individual industries is a genuine indication of the political will to take part in the unification of Europe. All the problems of joining, or becoming associated with, the Common Market ought to be eased by this provided that, on the side of the Six as of the Seven, there is a genuine desire, free from reservations, to see this come about.

THE AMERICAN ATTITUDE AND G.A.T.T.

There are also those who declare that at present the United States and Canada are hostile to the association of the Six with the other member countries of O.E.E.C. This point has to be elucidated in the light of the principles of G.A.T.T., of which the United States and Canada are today the champions.

The G.A.T.T. condemns in principle the establishment of preferential régimes between Contracting Parties which would extend to them privileges denied to others. It acknowledges, in Article 24, two clear exceptions: preferences between countries which agree to form (1) a customs union or (2) a free trade area.

However strictly interpreted, the provisions of G.A.T.T. are perfectly compatible with the carrying out of a project such as the creation of a wide area of free trade, as envisaged in 1957 and 1958 for Europe. They would also be perfectly compatible with the creation of a customs union embracing the Six and the Seven; but, apparently, at the present stage this idea is not yet acceptable to the Seven. If we were to remain indefinitely within the former vicious circle, in which the Seven cannot accept the formula of a customs union, in which some of the Six cannot accept a free trade area, and in which the United States and the G.A.T.T. accept only one of these two formulae, then we would have to conclude that the problem was insoluble. Nevertheless we ought to seek a means of emerging from this impasse by analysing carefully, on the technical plane, what are the arguments against the formation of a free trade area or a customs union between all the members of O.E.E.C. I am

convinced that, from the moment the political will existed to find a solution, the greater part of the technical problems could readily be resolved.

If one has in mind the interests of world trade, and particularly those of American and Canadian trade, it seems clear that the existence of a large free trade area or of a large customs union comprising the Six and the other O.E.E.C. countries would undeniably be of advantage, given the fact that such a grouping would include a large number of low-tariff countries and taking account of the influence they would necessarily exert on their fellow members of the group in favour of liberalism and the reduction of tariffs.

Here again, objective analysis of the technical elements of the problem reveals the possibilities of a solution and one returns inevitably to the fundamental question of the existence of a political will.

* * *

In conclusion, I wish to emphasize that any means of avoiding the division of Europe requires as an antecedent condition the political will towards unification. This question ought to be clarified. Once that were done, the technical problems, if not easy, could nevertheless rapidly be resolved.

Brussels.

June 3rd, 1960.

Baron Snoy et d'Oppuers.

Local Authority Borrowing, 1955—1960

IS THE PRESENT SYSTEM FAILING?

By Harold Cowen

THE local authorities borrow something like £500 millions a year and their outstanding debt is of the order of £6,000 millions. Yet discussion and criticism of these extensive operations is normally left to a handful of experts: there is little sustained public interest in the question. Recently, however, attention has been alerted by the factual information in the Radcliffe report and evidence. The large volume of local authority short-term borrowing, in particular, has aroused interest and some concern. The suspicion is widespread that local authority finance is a badly slipping clutch in the national financial machinery. The question is, does it need a thorough overhaul?

CHANCELLOR v RADCLIFFE

In the debate on the Radcliffe report the Chancellor merely told the Commons that he had "come to the conclusion that no change should be made in the present system in respect of local authorities." This rather rounded decision might have found a readier acceptance if his treatment of the findings and the recommendations of the Radcliffe Committee had adequately covered the ground of the battle. In fact, the Chancellor had dealt mainly, and quite effectively, with the somewhat superficial analogy drawn by the Committee between the local authorities and the nationalized industries. But he made little attempt to deal with the important issues and criticisms raised by the Committee about the way the system established by Mr. Butler in October, 1955, is actually working from the point of

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TABLE 1—*Local Authorities' Capital Finance* (Years ending 31st March).

	1955 £m	1956 £m	1957 £m	1958 £m	1959 £m	1960 £m
Amount raised on Capital Account						
1. <i>England and Wales:</i>	545	570	569	554	525*	n/a
<i>Less Government grants, revenue balances, special funds and other sources</i>	54	58	68	83	75*	
(A)	491	512	501	471	450*	n/a probably higher than 1958/9
2. <i>Scotland:</i>		76	68	66		
<i>Less Government grants, revenue balances and other sources</i>		6	5	5		
(B)	n/a	70	63	61	60*	
Raised from external sources ((A) + (B))	est. 560	582	564	532	510*	n/a
Some Types of Borrowing						
P.W.L.B. mortgages	386	364	121	116	44	n/a
Stock issues	14	16	66	38	48	54
Mortgage loans (approximate amount raised through London channels only)	n/a	n/a	200	150	200	300
Exchequer issues (net) for P.W.L.B. loans	353	331	109	92	Nil	Nil

*approximate figures only

Loan Debt (a) Temporary borrowing

	Call or 7 days	Other	Total
	£m	£m	£m
31st March, 1955	104	66	170
do. 1958	275	237	512
(15th May for Scottish authorities)			
<i>Increase</i>	+171	+171	+342

(b) Other Debt

	1 year or less	1—5 years	5—15 years	More than 15 years	Total : Temporary and Other
	£m	£m	£m	£m	£m
31st March, 1955	61	254	874	2,827	4,186
do. 1958	118	629	1,002	3,182	5,443
(15th May for Scottish authorities)					
<i>Increase</i>	+57	+375	+128	+355	+1,257

view of the national finances. Still less did he look at the situation as it appears from the local authority side of the fence.

It will be recalled that Mr. Butler abruptly reversed the main principle in operation since the war, under which the local authorities, compulsorily up to 1953 and at free choice between 1953-55, borrowed from the Public Works Loan Board. Under the present régime the local authorities are expected to try to borrow in the market and the Board will provide funds only as "lender of last resort". The course of events is indicated in Table I. The principal features are: (1) total borrowing has continued in the range of £5-600 millions; (2) Exchequer issues have fallen from £350 millions to nil, reflecting the roughly corresponding decline in loans from the P.W.L.B.; (3) the money has come from mortgage issues and (see below) increased call and short-term borrowing.

The main criticism of the Radcliffe Committee was that "the unfunding operations" of the local authorities "have been piling up short-term debt in a way that is clean contrary to the funding policy of the monetary authorities", while the "glutting of markets with short-term local authority paper has gone on too long to be without effect on the markets for the central Government's bonds." Temporary borrowing by local authorities at the end of the first quarter of 1958 totalled £512 millions, an increase of £342 millions compared with three years previously. Pending the issue of more up-to-date local authority borrowing statistics—now in an advanced state of preparation in response to the Committee's strictures on the inadequacy of official data in this regard—it is not known whether local authority temporary borrowing has increased in the last two years. In unofficial quarters, however, the order of magnitude is now put as high as £600 millions. Some alarm has been expressed at the large amount, possibly £90 millions or so, of this short-term money obtained from essentially fleeting foreign sources as the result of transactions in what have become known as "Euro-dollars".

The Radcliffe Committee would solve the whole problem by returning it to the Treasury: that is, by reinstating the principle adopted by the late Lord Waverley (then Sir John Anderson) in 1945. This answer has been vehemently attacked on two grounds. First, it is argued that lifting the responsibility of raising funds from the shoulders of the local authorities leads them to ask for more than they otherwise would. Secondly, it is held that, in so far as the Treasury found it impossible to increase correspondingly its own issues of funded debt, the result would

be to increase the Treasury bill issue, with inflationary implications. This latter argument is, of course, founded on the technical point that local authority paper itself is not eligible for rediscount at the Bank of England, is not held as a liquid asset by the clearing banks and consequently does not expand the credit base.

It is of some interest, however, to note that the principal reason advanced by the Radcliffe Committee for their recommendation echoes very fairly what the then Chancellor said in introducing the Local Loans Act of 1945:

So far as the Central Government is concerned, the advantage [of drawing on the Treasury pool through the P.W.L.B.] will be that a great portion of the demand on the capital market, instead of being made by a large number of authorities as and when each of them needs funds, will be made by the Treasury itself, at such times and in such ways as are most convenient in the light of the general borrowing programme.

The Radcliffe report version is: "... the sums [to be borrowed] are large . . . and from the point of view of monetary control it is preferable that the timing should be completely at the discretion of the monetary authorities." This, in fact, is where we came in.

It would be easy to overdramatize the importance of temporary borrowing in the whole picture of local authority finance from the point of view of the local authorities themselves—an aspect discussed later in this article. Nevertheless, it is difficult to share the view evidently held in some quarters in Whitehall (and reflected in the tenor of the Chancellor's speech in the Radcliffe debate already mentioned), that because the present local authority borrowing system has eliminated all "below-the-line" issues for local authority finance from the current and last two preceding national Budgets it must be deemed reasonably successful. From the national point of view, the existence of so much short-term local authority paper is surely, as the Radcliffe Committee indicated, a real headache. Possibly the Treasury's attitude of non-concern (Mr. Errol, just over twelve months ago, told Mr. Jay that the government saw "no reason to disapprove") may reflect the difficulty of knowing what to do about this debt. With the gilt-edged queue a couple of years long, a rap for the local authorities might seem rather ill-timed.

BORROWING ON WHOSE CREDIT?

In fact, the question of the composition of the local authority debt is, in a sense, a secondary issue. More important on the larger view is how far it is realistic to accept Mr. Heathcoat Amory's view that the local authorities, "borrowing on their own credit without a Treasury guarantee", raise "a great deal of money, particularly local money, which would never have come our way at all." In appraising this contention, the somewhat studied concept of independent local authority credit must be considered first. How far, in fact, do the authorities depend on their "own" credit standing?

The market computes credit factors, evaluates them in relation to current views as to future trends, distorts the results by reference to pure quirks of taste, and throws out answers expressed in comparative yields. For the purpose in hand it is important to eliminate the basic security factor from all the rest. Some new thinking might follow the abandonment of the now archaic conception that each local authority is still an independent borrower, possessing an independent credit standing based on the security of statutory charges on the rates. In the days when local authorities themselves decided—subject to overriding *negative* control of the central government—what capital expenditure and loan obligations they undertook, when the sources of their income were truly local and innocent of rates equalization and grants, either block or "earned", they really did possess an independent credit status. But the whole course of events since the end of the first world war, and especially since the Local Government Act of 1933, has reduced the principle of independent credit status to a meaningless but confusing shadow.

Independent credit standing is a function of independence. Local authorities have this in some measure, and it is a valuable and indispensable element in our system of government. But while they have a good deal of freedom within well-defined limits, all high-level policy, which dictates both the magnitude of the financial commitments and the means available for meeting them, rests with the central government. Housing, education, slum clearance, sewage schemes—in all of these the central government *in large degree* sets the pace; and they account for a very high proportion—say 80–90 per cent.—of all local authority capital expenditure. Total local government expenditure in England and Wales in 1957/8 amounted to some £1,100 millions, excluding loan charges and self-balancing items. Towards this, government grants and reimbursements

provided the wherewithal to the tune of no less than £600 millions. With such a proportionate budgetary dependence subject to or in pursuance of direct government authority, two things follow: (a) the government cannot escape ultimate responsibility and (b) central government power, although kept as much as possible in reserve, can be exerted in case of the least show of recalcitrance or irresponsibility. In truth the responsible Departments, in continuous consultation with the Treasury, would be failing their duty if they did not see to the financial viability and integrity of each and every authority.

When the authorities raise money in the markets there is some cloak play, in that local government mortgages and stocks are statutorily charged on all the revenues of the authority. The forms of mortgage and stock instruments specify this security and the Local Government Act of 1933 lays down a procedure for the appointment of a receiver in case of default. This power has never been exercised and under modern conditions it is inconceivable that it ever should or could be. The phrase "secured on the rates" has today no more meaning than the promise "to pay the bearer on demand the sum of one pound". Thus the statutory duty of authorities under the Rating and Valuation Act of 1925 to levy sufficient rates to meet their obligations is the lender's first protection; it applies with equal force to contractual commitments of all kinds. But if it were not universally recognized that central government stands behind the local authority, any delay in the punctual discharge of the smallest debt liability by the least-known rural council could react on the whole market for local authority securities. It could force local authorities, large and small, to resort in droves to the Public Works Loan Board and return the whole burden of financing to the Treasury. On the crudest business considerations, let alone the moral case, local authority obligations must be considered an integral part of the whole edifice of government credit.

The reality of this conclusion emerges when one considers the serious technical handicaps attaching to local authority securities, class for class, in relation to the yields of the nearest comparable government obligations. Take first the short-term debt. It is raised on Deposit Receipts without departmental sanction under the provision of the 1933 Act, which entitles a local authority to borrow by way of temporary loan or overdraft in anticipation of revenue or of a loan creation. A departmental loan sanction is, indeed, an essential preliminary where

such short-term borrowing is in anticipation of the raising of a funded obligation; but the point is that the duration of such temporary financing is not limited.¹

This short-term borrowing may not be secured on the rates, unless it is for more than one year. Consequently, it does not enjoy Trustee status—since the 1958 Act conferred Trustee status only on local authority borrowings “charged on all or any of the revenues.” In addition to these shortcomings, Deposit Receipts lack the most powerful financial attraction of Treasury (and fine trade) bills for the money market: they are not eligible for rediscount, not “good paper”. Deposit Receipts also suffer, by comparison with Treasury bills, from the fact that the market in them is not so highly organized. Dealings, for technical reasons, are necessarily on a slower and cruder basis than the money market provides for money bills and the like, in which transactions in millions are effected in a moment on the telephone in response to differences of pennies in the rate.

In the face of all these snags, the ease with which the market absorbs such large quantities of local authority paper is rather remarkable. Lenders who employ their money at short-term, and who currently absorb Deposit Receipts to the tune of hundreds of millions, are necessarily, because of the nature of the funds used, sensitive to a hair to credit standing in the broader sense. The underlying assumption is that the national credit is involved, and differentials in yields would surely be much greater if this were not accepted. Again, local authority mortgages suffer from the fact that they are, in effect, non-transferable except at quite exorbitant cost to the seller, on whose back falls both the 2 per cent. stamp payable by the transferee as well as the negotiating expenses.

Partly balancing this vital defect is the fact that the lender obtains an investment which exactly meets his requirements to the day (thus avoiding loss of interest and administrative complications to institutions which have reason for matching maturing obligations and receipts) and which does not fluctuate in market value during the life of the investment. This latter consideration may explain why, at times when the prevailing market atmosphere apprehends the possibility of a secular up-trend in long-term rates, with accompanying depreciation in market securities, the yields offered by local

¹ There is no upper limit in England and Wales but the Local Government Act (Scotland) of 1947 limited Scottish authorities to 15 per cent. of total outstanding debt obligations.

authority mortgages seem to approximate more closely to those obtainable on gilt-edged securities of comparable life. The reverse also seems to apply.

There are interesting implications in the table below, which compares the yields offered by some medium/long-term corporation stocks with those offered by fairly similar government and guaranteed issues. Only those with the same coupon rates are shown: the complications where coupon rates differ are too abstruse. The addition of columns showing the P.W.L.B. and mortgage rates puts the yield structure in perspective.

TABLE II

	Date	Price 31.5.60	Interest Yield*	Redemption Yield*	P.W.L.B. Rate	Mortgage Rate
			£ s. d.	£ s. d.	£ s. d.	£ s. d.
Conversion 3½%	1969	85½	4 2 4	5 13 9	—	—
L.C.C. 3½%	1968/73	80½	4 8 5	5 15 9	6 0 0	5 17 6
Conversion 5%	1971	95½	5 5 11	5 13 8	—	—
Surrey 5%	1968/71	95½	5 5 8	5 12 10	6 0 0	6 0 0
Bristol 5%	1971/3	94½	5 5 6	5 11 2	6 0 0	5 17 6
Brit. Gas 4%	1969/72	86½	4 13 11	5 14 0	—	—
Middlesex 4%	1952/72	85	4 14 6	5 14 10	6 0 0	6 0 0
Conversion 5½%	1974	96½	5 8 5	5 11 7	—	—
Middlesex 5½%	1980	97½	5 8 6	5 10 4	6 0 0	5 17 6

*Allowing for accrued interest.

A SEPARATE POOL OF FUNDS?

Technically speaking, there is a much closer correspondence between quoted corporation stocks and government stocks than there is between Deposit Receipts and bills or shorts, or between mortgages and similarly dated government bonds. The quoted stocks are alike in their nature; and if allowance be made for the differences in the sizes of the issues, the conclusion must be drawn, surveying the whole field of local authority borrowing, that such differentials in yields as exist by comparison with government securities are largely attributable (a) to technical factors and (b) to changes in sentiment as to the future course of interest rates. The basic credit standing is, as it should be, on all fours. It surely follows that, broadly speaking, the central

government and the local authorities are in direct competition for and dependent upon the same pool or pools of investment funds.

Local authority borrowing of all kinds averages at least £2,000,000 every working day (taking the short-term operations as though they were on a yearly basis to give a fair impression). Allowance must be made for the surely high proportion of local money that, if local mortgages were not available, would go into Premium Bonds, Savings Certificates, Trustee Banks, market purchases of government stocks and similar channels leading back to the central pool. When that is done, is it really suggested that the local mortgage investor—including in this use of the definition only the man-in-the-street—makes any weighty *net* contribution to the larger over-all local authority finance problem? There is some fringe borrowing and lending which perhaps untidies the picture a bit. The little-known and remote authority may have to pay a shade more (most unfairly, one would think). Local patriotism may be an influence in the much-quoted North-West. Local advertisement may, again most unfairly, draw in some generous (or more probably ill-informed) personal investors at rates below the current market standard. But does all this amount to much in practical terms?

All this suggests that the present system does little to relieve the central government's burden *for any given volume* of local authority borrowing. That is not the same as saying that it does nothing to reduce that total below the level it would attain if, as the Radcliffe Committee recommended, local authorities were given unrestricted access to the Public Works Loan Board at prevailing gilt-edged rates. The Radcliffe Committee, and the local authority spokesmen who also favour free access to the P.W.L.B., seem to place too much reliance on the assumption that "the capital investment programmes . . . are subject to close control by the central government" because loan sanctions are required for every project involving borrowing. This attitude over-simplifies the administrative problems and by-passes the larger political issue.

The increasing responsibility of local authorities in the Welfare State necessitates a large devolution of authority and responsibility from the centre. The creation of an even more gargantuan central bureaucracy, and a loss of efficiency in the use of resources, are inevitable unless the tasks of decision and administration are accomplished regionally and locally, within over-all policies and limits set by the State. This, in fact, was the vital and constructive principle of the 1958 Act. The

system of general grants, the amount of which is ultimately decided by the Minister, has achieved in the field of revenue commitments a nice balance between responsible judgement and independence, on the one hand, and departmental influence, on the other. The local authorities have to weigh for themselves the pros and cons of competing revenue demands. This has had a most salutary effect.

It is evident on consideration that the same basic idea must be preserved in the field of capital expenditure. If the grant of a loan sanction carried with it the automatic supply of funds, as in 1945/55, the result would be, inevitably, a heavier total demand, an increased responsibility at the centre for distinguishing between the merits of particular proposals and in consequence a more rigorous system of control. As it is, the demand on the Departments for loan sanctions always exceeds the total that can be accommodated within the over-all Treasury allocation for the year. Under the present system the order of precedence (within broad categories prescribed by the Treasury) is settled by a pull-devil, pull-baker tussle, in which the need to find the money is on the side of the angels.

While local authority spokesmen emphasize that a high proportion of capital expenditure is directly related to central government policies, there does remain within the enormous volume of local authority capital formation—representing in recent years about 16 per cent. of the total for the whole of the public and private sectors of the economy—a wide range of selection and variation in the degree of intensity of application. Even in matters of such importance as the provision of main drainage, for example, the rate at which sewerage systems are extended into rural areas offers a considerable latitude of choice. The L.C.C. Memorandum of Evidence may be quoted in this sense:

... borrowing difficulties are now causing the Council to consider some postponement of capital works ... failure to secure adequate finance might seriously prejudice its essential capital programmes and entirely preclude less essential but nevertheless desirable projects.

What is covered by the phrase "less essential" is anybody's guess, but it can hardly be doubted that, in terms of the total demand on resources by a thousand local authorities, it may well represent a large figure. The L.C.C., of course, has its own Parliamentary authority, but over the rest of the field the responsible government department can make the local authority think, by factual enquiry and argument. It can encourage or discourage action in any particular respect by

giving the loan sanction application a high or a low place in the programme. In this sort of way, without the absolutism available to the actual provider of finance, it can induce the local authority to push to the fore those projects which in the light of all the local circumstances and locally expressed opinions should take precedence.

DISADVANTAGES OF PRESENT SYSTEM

It can hardly be said that the existing system has failed or is failing; but it is certainly not working well—either for the Treasury or the local authorities. The mortgage market has, indeed, expanded much more amply, following the restriction of access to the Public Works Loan Board, than some of its critics thought likely. No case has come to light of any authority being actually turned down or failing to find a mortgage investor through the market. Some of the very small or little-known authorities may have been asked $\frac{1}{16}$ per cent. or $\frac{1}{8}$ per cent. more than the prevailing standard rate; but that is the type of authority which finds quite a ready response from the Board—albeit at a rate above that obtaining for quoted corporation stocks.

Certainly, there has been a big shift from long to medium-term borrowing and an exceptional increase in the call and short-term position. There seems no reason to doubt that both these trends have been due to deliberate choice on the part of Treasurers, and not at all to any real difficulty in raising mortgages of any duration. In fact, it can be attributed wholly to two factors. First, and mainly in the earlier stages, it was probably due to a mistaken judgement about the general course of interest rates. Treasurers who grew up in the fifteen years ending October, 1955, were all conditioned by an experience of artificially low interest rates and failed to appreciate the major economic factors at work in the post-war era favouring a long-continued régime of high interest rates. Secondly came the growing realization that large savings could be made by borrowing on Deposit Receipts at call or short-term.

The nervousness expressed in some circles at the extent to which local authorities have been financing long-term capital expenditure by short-term borrowing does not seem well-founded. Few developments in the money market could really embarrass them. The pool of monies of all kinds available for short-term employment is so vast and so "elastic" that bidding up the rates would certainly suffice to cover encashments by any particular class or classes of lenders.

That is presumably the main reason why the Treasury expresses so little concern.

On the other hand, the existing arrangements are open to criticism from several points of view. It is impossible to refute the Radcliffe Committee's remark that,

with lapse of time the close connection between various parts of the credit and capital markets becomes more and more relevant: the local authorities' quest for funds reacts back on the central market which the restriction of long-term issues was intended to protect.

This is the major objection from the central government's angle. The local authorities, for their part, have a real grievance. Their feeling of disgruntlement, which is widespread, is in itself admittedly a bad thing. "Local authorities", wrote "Prudens" in *Local Government Finance* of May, 1959, "will feel more than ever that they have been harshly treated. Out in the wilderness it is difficult indeed to think in terms of the partnership and co-operation which Mr. Butler offered . . ." The true content of their complaint is surely that, owing to cumbersome or inadequate organization, they have to pay more for their money than they should do in relation to the prevailing interest rates structure at any given time. If that is so, it merely penalizes rate-payers (and tax-payers also where the central government contributes), with no other result than to increase the return to investors.

Another serious defect is that the existing system presses unevenly on different authorities. This is not because of delicately appraised differences in credit-worthiness, which hardly comes into the picture in practice, but mainly by reference to size. There is really no intrinsic reason why any authority large enough to issue stock should get its long-term money more cheaply than the smaller authority which is limited to mortgages or the P.W.L.B., simply because the amount the latter requires to borrow does not reach the £3 millions minimum limit set by the Treasury. Differences of $\frac{1}{4}$ – $\frac{3}{4}$ per cent. are highly significant in long-term borrowing; the gap is sometimes wider, as shown by the chart on page 31.

There are, we have concluded, good reasons for not throwing the whole burden back on to the Treasury. Responsibility for finding the money does act as a real restraint on the total demand for funds and it does preserve an important degree of local independence, without which the administrative burden on the central government would be greatly increased. Moreover, when the local authorities' demand for funds exceeds the gilt-edged market's capacity for absorbing their long-term

stocks, it is vital to avoid any technique that would automatically broaden the credit base by expanding the issue of Treasury bills. On the other hand, it is idle to pretend that local authority credit is anything but the credit of the British government in a blurred but easily recognizable form. It follows that almost all local authority issues draw on a single pool of investment funds in vicarious competition with government stocks. There seems to be no object in forcing local authorities to rely mainly on selling mortgages to the public in the hope that in some mysterious way they will thus tap a different source of savings.

Some alleviation of the situation could no doubt be achieved by allowing authorities to group together for the purpose of reaching the £3 millions minimum. What is really required is some machinery to provide a link between the hundreds of authorities borrowing in their tens, fifties and hundreds of thousands, and the saving public which must have a market for its investments. A move in this general direction may be seen in the mortgage bureaux set up, with some enterprise, by groups of local Treasurers in various parts of the country for the purpose of gathering and relaying information about the availability of funds. It seems, however, that these bureaux are in the main concerned with the location of short-term money. There is also evidence that their range of activities is somewhat curtailed for fear of upsetting the established mortgage brokers, who have developed a highly expert and efficient service in bringing together local authority borrowers and public lenders. Useful as these activities are, they still leave unanswered the basic problem: that local authority mortgages are virtually unsaleable. Some means of making them saleable must be found if authorities have to raise their own capital.

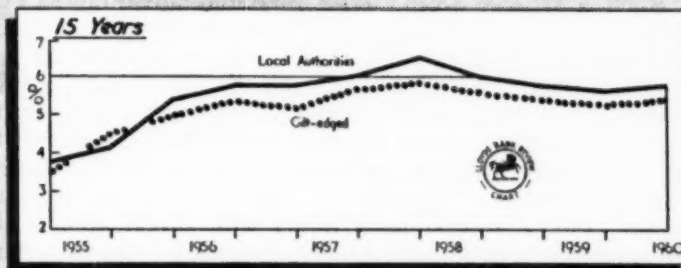
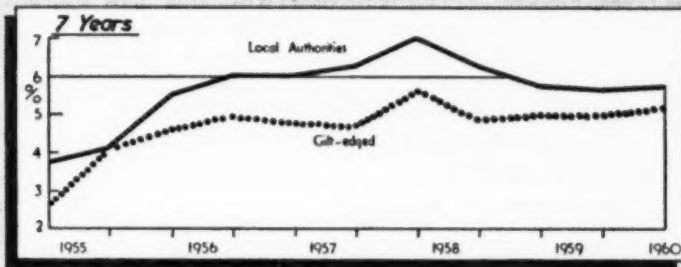
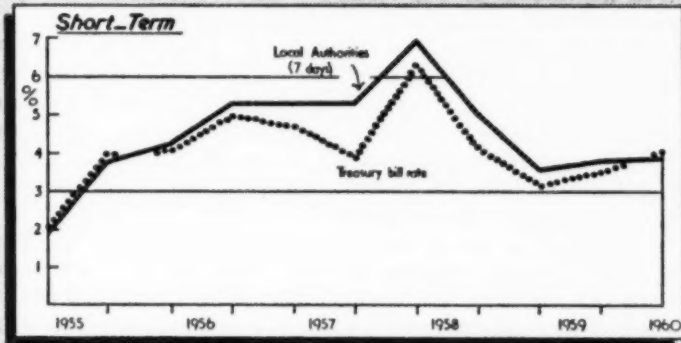
CASE FOR A CENTRAL BORROWING AGENCY

It certainly seems that fuller consideration should be given to the suggestion, repeated in the submission to the Radcliffe Committee by the County Councils Association¹, that a central borrowing agency should be established to co-ordinate local authority borrowing and lending. Without following the C.C.A. in its suggestion that the necessary funds should be supplied primarily from the Consolidated Fund, is it too difficult to conceive of the establishment of a semi-autonomous body (which might even be the P.W.L.B. itself in a reconstituted form under charter) to perform this function? The

¹ See also *The Banker* of Sept. 1956.

LOCAL AUTHORITY BORROWING RATES

Compared with yield on government securities



Note: Figures are averages for January and July each year

precedent of the old Local Loans Fund is relevant up to a point, though no-one would suggest a return to the system of tap issues, which were a continuing source of weakness in the gilt-edged market between the wars.

An institution of this nature would be able to satisfy the demands of local authorities only to the extent that it was able to raise funds from its own borrowings. These could take the form of stock issues in the gilt-edged market—subject, of course, to Treasury queue—or the creation of non-marketable securities, e.g. the acceptance of deposits. In either form they would rank for trustee investment but would not carry an actual government guarantee. The proposed institution would necessarily be equipped to apply financial—but not administrative—tests to the demands of its would-be local authority borrowers. That is to say, the financial position of the intending borrower would be studied in a more knowledgeable and professional manner than is in fact done under the present system. Local authorities would retain their freedom to issue their own securities by mortgages, Deposit Receipts or otherwise. But their short-term borrowing would be restricted to the real intention of the 1933 Act: namely, borrowing in anticipation of shortly expected revenue or capital receipts, not as a substitute for permanent financing. This is at least a mis-use of the backing of U.K. credit and hits the operations of the monetary authorities too near to a vital spot for comfort.

* * *

Such a scheme would offer manifold advantages. First, the local authorities would retain their freedom of action; it would not restrict local borrowing or direct negotiation with the institutions or placings through the mortgage market. Secondly, it would particularly help the authorities in the middle range, who are too small to make stock issues and too large to get a very sympathetic hearing from the P.W.L.B. as at present directed. Thirdly, it would avoid the excessive creation of quasi-government paper and direct competition with government securities. Lastly, it would short-circuit the difficulties inherent in the present system, by matching the type, nature and life of the securities offered to meet the needs of a general investment demand, without offering any greater competition with government borrowing than does the present system.

In any event, the constitution, duties and regulations governing the Public Works Loan Board seem to call for modernization. One indication alone is sufficient to show that there is a case for such an overhaul. The Board is precluded from making maturity loans, i.e. loans which are repayable at maturity. It is obliged to insist on repayment by instalments. It is difficult to make any sense of this provision, which dates back to the Public Works Loan Act of 1875, in a situation in which most of the larger authorities operate mortgage pools or loans funds. Again, where "pooling" authorities are concerned, there is surely a certain waste of administrative energy in carrying out the present obligation to earmark the proceeds of a loan to a particular consent. Within the limitations of policies enforced from above, there are excellent relations between the Board and the local authorities it serves; but there is certainly a feeling that under modern conditions the administrative procedures required by its constitutional limitations are sometimes needlessly complex.

The reality is that no adequate attempt has been made, or perhaps it is fair to say that no satisfactory solution has been found, to cope with local authority capital finance on the scale dictated by the requirements and within the conditions of the post-war Welfare State. Within the accepted framework, very few changes can be rung: they have all been rung in the last fifteen years with differing but invariably discordant results. The root problem, of course, is bound up with the nature of democracy. Politicians are impelled to create an excess supply of fixed interest securities and are baffled by the inevitable consequences. Even so, we might as well have the most efficient machinery for tolling the bells.

May, 1960.

Harold Cowen.

The Revolution in Sport

By Josselyn Hennessy

ONE result of rising living standards and all that they imply has been a marked change in the pattern of sports in this country. On the one hand, some of the traditional spectator sports seem to be losing ground, because of the wider range of choice and interests that the individual now enjoys. With increasing means, on the other hand, more and more people are taking up pastimes, such as golf, skiing or sailing, formerly the preserve of the well-to-do. Some of the spectator sports, in consequence, are meeting financial strains. For horse-racing the strains are being alleviated by a levy on bookmakers; in other cases, too, there may be a participation in the proceeds of gambling; and there are suggestions that sport in general should receive a sizeable State subsidy. It is with these trends, and the issues to which they give rise, that this article is concerned.

THE FACTS

There are in Britain *at least* 107 sports and games controlled by various organizing associations, and more which are not. How many of the country's total population of 52 million people engage in one or more of these hundred or so sports? One estimate, by an authoritative body, assumes that of the 21 million men, women and young people between the ages of 10 and 40, nearly 15 million are active participants. This does not, of course, cover the whole population: there must be some below the age of ten, and substantial numbers above forty, who also play games. Golf, tennis, fishing, shooting, fencing, bowls, swimming, yachting and even cricket are a few pastimes in which many over-forties are likely to participate. If we arbitrarily add only 5 per cent. of players, drawn from the additional 18,600,000 people over 40 but below the age of 69, we reach, in round figures, a total of 16 million players of one or more games. Whatever the real total, it seems that, contrary to the accepted view, more people play than watch.

Josselyn Hennessy, London representative of the *Eastern Economist* of New Delhi, writes and broadcasts on economic and Indian affairs. In his time, Mr. Hennessy has taken an active interest in sport, has enjoyed Saturday cricket and frequently partnered Davis Cup players.

With average weekly earnings in industry at nearly £11.10s. (October, 1959), compared with £3 pre-war, most people can afford to engage in some kind of sport, with one or two exceptions, such as polo and race-horse owning. The rising standard of living has led to a revolution in spending habits. With more to spend and more goods and services to spend it on, shopping, *even with men*, has become a major Saturday afternoon occupation.¹ More people own houses and enjoy better homes, so that home interests claim greater attention. People are marrying younger; more husbands and wives therefore share leisure-time activities. All this means stiffer competition for those sports which provide entertainment spectacles, and some have suffered substantial falls in attendance. Football League gates, for example, have dropped from 41.3 millions in 1948/49 to 33.6 millions in 1958/59, and first-class cricket admissions from over 3 millions in 1948 to 1.7 millions in 1959.²

It also seems probable that team games are becoming less attractive than individual sports like golf, tennis, sailing or fishing, in which the individual with more leisure and money can himself engage for an outlay within his means, and in which husbands and wives can share. For example, the *News Chronicle* estimates that, whereas 470,000 played soccer in 30,000 teams in 1949/50 (excluding schools and services), the number had fallen to 435,000 in 29,000 teams in 1959/60. On the other hand, Golf Foundation Ltd., a non-profit-making body supported by the industry, has induced no less than 400 boys' and girls' schools to take training courses from professionals paid by the Foundation. It is claimed that 5,000 new golfers have been going on to the links every year. The Foundation also coaches factory workers at over 200 centres at 25/- for ten lessons, and of 5,000 workers so far coached "at least 2,100 have taken the game up permanently". Angling, of which one authority believes there may be 2,000,000 enthusiasts, is also flourishing. So, with 2,450 clubs affiliated to the English Association alone, is bowls, once indulgently regarded as a pastime of the elderly.

Because the share of British victories in international competitions of all kinds has fallen steeply, many assert that British playing standards have declined. "Britain has become a second-rate sports power." This overlooks that, compared with earlier

¹ *News Chronicle* Gallup Poll (Feb. 1960).

² Since one spectator may be admitted several times, the total of admissions should not be confused with the (unknown) total of spectators.

years, our international entrants are competing with up to ten, or more, times the number of competing nations. Relative to our population, we are by no means doing so badly.

In bygone days, international competitors were middle-class amateurs. These are the people hit by post-war taxation, inflation and the effort to maintain their traditional educational and other standards. The inability of the middle classes to meet expenses in top-level games has led to compromises in the definition of "amateur status". Each British sport, master in its own house, gives different grants to its "amateur" representatives. Chaos reigns. Some associations require players to meet all, or most, of their expenses themselves. This is said to be why British hockey teams cannot afford to tour India. The cost to each member of the netball team which toured South Africa in 1956 was probably about £250. On the other hand, a tennis player, athlete or swimmer, representing Britain, gets his fare and "reasonable" expenses. Some definitions of amateur status are popularly believed to cause widespread casuistry, which, in turn, lowers sports in public estimation.

Not only have expenses per head for taking part in international matches and competitions soared, but total costs are greater because more international events now take place, more frequently and in more different kinds of sports than ever before.

British participation in the Olympic Games is organized by the British Olympic Association, financed by appeals for voluntary subscriptions. Between 1950 and 1958 the B.O.A. raised £316,965 to send 1,045 competitors to the Empire Games and to the Olympic Games. In 1932, it cost £85 to send a British entrant to the Los Angeles Olympiad; in 1952, nearly £200 to Helsinki; in 1956, about £624 to Melbourne.

British participation in other international events, such as cricket, soccer, rugger and tennis, is financed by the controlling associations of the sport concerned. The traditional way in which these associations raise funds, and on which some of the less wealthy sports still depend, is by annual subscriptions from individuals, clubs, counties or regions. For some associations, gate money is the biggest source. For example, in 1958/59 the Lawn Tennis Association received £49,576 (subject to tax) from the 1958 Wimbledon Championships, out of total income of £59,610. The Football Association in 1958/59 received £509,244 from international, challenge cup and other matches. The Rugby Union had a surplus of about £60,000 from its 1958/59 international matches at Twickenham. Some associations rely heavily on donations from individuals or business houses.

To assess the relative wealth of the leading sports-controlling bodies is difficult. In some sports, the controlling body is alone; others have clubs or organizations with regional funds. Some publish balance sheets; some do not. The assets of some associations are offset by liabilities. Accounting methods differ. The following list of assets shown on current balance sheets must therefore be regarded only as a rough indication:

Assets: 1959

	£
Football Association	397,859
Lawn Tennis Association	279,883
Rugby Football Union	238,430
Rugby League Football	87,059
Amateur Swimming Association	16,218
¹ Amateur Athletic Association	12,567
All England Women's Hockey Assoc.	10,954
Hockey Association	5,081

The Marylebone Cricket Club, the controlling body of cricket, issues accounts only to its 7,562 members, who pay a subscription of £6 a year. It also has 3,003 associate members. Membership is limited by the accommodation available, and with wastage at 200 a year it takes 25 years for a name to reach the top of the waiting list. Press reports state that in 1953 the surplus of receipts over payments was £17,874, whereas in 1958 expenditure exceeded income by £8,885. The M.C.C.'s revenue income in 1959 was £117,000; of this about half (£59,113) came from members' subscriptions, which were £4,000 less than in 1958.

Only a portion of a central association's surplus, if any, is available to finance teams in international competitions. Municipal rates, administrative expenses, upkeep of stands, wages, have all rocketed. For example, in 1951, a soccer League player's maximum weekly wage was £12; in 1960, it is £20. While only 12 professionals earned over £1,000 a season in January, 1958, today about 500 (i.e. nearly one in three of League players) do so. Spectators are often kept away by antiquated stands exposed to the weather and lacking modern amenities. Many new stands are needed, but the finances of most spectator sports are precarious. For instance, the admissions to one race-course in 1958 totalled £99,000, of which all but £1,600 was swallowed by expenses. Out of 72 race-courses, only nine make over £10,000 a year, an 8 per cent.

¹ The A.A.A. does not finance international teams. This is done by the British Amateur Athletics Board.

return on their capital. The remaining 63 courses average profits of only 2½ per cent. A new expense now undertaken by many associations is coaching. Thus, in 1958/59, the Football Association spent £12,290 on coaching and the Lawn Tennis Association £5,834.

The baffled feelings caused by our apparent failure in international competitions frequently lead to the conclusion that in a Welfare State the responsibility for "doing something" rests with the government. A typical comment by a sports writer was that the L.T.A.'s expenditure on coaching had not found one junior who looked like a champion; if its coaching funds were insufficient, it was suggested, the L.T.A. should "bully the government" into providing more. I have not, however, chanced upon any sports writer who warns his readers that that impersonal entity "the government" is in this context a synonym for "the taxpayer".

Broadly speaking (and when dealing with over a hundred sports one can only speak broadly), it is true of most sports that clubs made up of members who play for fun are not experiencing undue difficulties. It is those which depend on gate money that are running into the red. More and more they are forced to rely on a share of the profits that their central association makes on its international events. Thus, several thousand amateur cricket clubs which people join to play, not to watch, are described as "flourishing", whereas the 17 major counties and 32 minor teams could not survive long without their share of the M.C.C.'s profits, and without the increasing help of supporters' clubs, which raise money for their county team by lotteries. In football, supporters' clubs raise £500,000 a year. Without this, says a *News Chronicle* sports writer, the League football IVth Division "would not exist", the IIIrd division would be "in its death throes", the IIrd would "only be struggling", and "only 20 of the 92 League clubs could carry on." The finances of the clubs outside the Football League are, says this writer, even worse. Survival in many cases depends on gamblers who, having no interest in soccer as such, might easily switch to another game.

A SPORTS GRANT-GIVING BODY?

It was to examine not merely these financial problems but all factors affecting the development of sports, and to make recommendations in order that sports may play their full part in promoting the welfare of the community, that the Central Council of Physical Recreation set up in 1957 a commission

under the chairmanship of Sir John Wolfenden. The commission's recommendations (as yet unpublished) are likely to open a new era in the history of British sport. A number of leading sports authorities appear to have urged the commission to recommend the creation of a Sports Council as a grant-making body, analogous to the British Arts Council, with an initial fund of £5,000,000.

An influential and leading sports organization, for example, has described in some detail the possible rôle envisaged for such a Council. It would consist of three or four "wise men", eminent enough to be above the politics of sport, and aided by a strong fact-finding secretariat, which would vet applications from sports associations and provide grants for approved purposes. These would be: (1) to provide additional sports facilities, grounds, pavilions, stands, or equipment; (2) to train voluntary coaches and also top-level performers; (3) to provide controlling bodies with better office facilities and adequate paid staff; (4) to provide them with more area and county representatives and to help clubs throughout the country; (5) to create a "Sports House", which would offer central office accommodation to those many governing bodies throughout the Kingdom which, having inadequate office space or no offices at all (many are run from the home address of some enthusiastic devotee), might like to have an office; (6) to provide money to enable the U.K. to be "worthily represented" in international championships and matches.

If these proposals, or some variations of them, prove to be the recommendations of the Wolfenden commission, they would be well received by many sports-controlling bodies and sports writers. But they would raise broader considerations which must not be overlooked.

First, any social structure is always in course of evolution. Why, then, should we try to freeze the existing structure of British sport? In the eighteenth century the aristocracy hunted the fox, an expensive pastime which required a wide area of country. There was also a good deal of individual shooting and angling by other people, and local games on village greens. But as the Industrial Revolution developed it massed people in towns, and a new middle class emerged with increasing incomes and leisure. In or near towns, games like cricket and football found both teams and the relatively small space required. By using team games as constructive outlets for energy, the reformed public schools of the nineteenth century did more than any other group to popularize team games among the new middle

class. Thus was the Industrial Revolution, about which economic historians have written volumes, accompanied by a Sports Revolution, about which they are silent.

Britain is today living through a second Sports Revolution which is creating as profound social changes—for the same reasons—as did the first. Just as the middle classes of the nineteenth century gradually eclipsed the aristocracy in spending power and imposed their economic and social ideals on the century, today what used to be called the lower middle classes are securing an increasing share in the distribution of wealth and are blurring previously established middle-class patterns. One basic change is that team games and spectator sports are yielding to individual pastimes. This transition dismays those many dedicated sports association officials who see in it the eclipse of their life's work. When they defend their sport by claiming that it is part "of the British scene", or of the "traditional British way of life", they are seeking to enlist wider emotional support for it outside the ranks of its actual devotees. But the content of the British "scene" and "traditional way" never ceases to evolve, like a slowly moving kaleidoscope. Socially and economically, a county cricket match in 1960 is not what it was in 1910; in 1810 there was no such thing.

Consider two examples of today's Sports Revolution. First, a British millionaire recently said "I don't want a yacht"; but, as *The Financial Times* was quick to comment, he is out of step with a growing number of his countrymen. Yachting has ceased to be a pleasure exclusive to the wealthy, and boat builders are launching large-scale production of their cheaper models. In its first year, 1953, the Boat Show attracted 120,000 visitors to Olympia. Numbers have since risen so greatly that the show has been shifted to Earls Court, to enable 250,000 to view the products of 300 exhibitors (50 more than before). As a sign of the times, *The Observer* has allotted a whole column to a newly appointed full-time yachting correspondent with a name eminent in the yachting world. The U.K. is inching its way towards the U.S.A.'s affluent society, where there are now 7½ million small-boat owners. Secondly, the Ski Club of Great Britain estimates that, whereas some 50,000 people engaged in winter sports in 1955, over 100,000 now do so. Students, secretaries, nurses and others with limited purses have, by taking advantage of reduced fees for parties, added ski-ing to their pleasures. Their invasion is changing the face of the once-deserted Cairngorms. The trade reports a turnover in ski equipment of £2,000,000 a year, and it continues to rise.

Ought these new skiers, small-boat owners, golfers and new enthusiasts of other individual sports to have their spending power decreased by taxation in order to provide the government with money to prop up some declining nineteenth century sport?

A fancy occurs to one. Jousting tournaments lasted as long as knights fought in armour, but as cannon balls unsportingly appeared knights in armour became obsolescent, then obsolete. Now, if sports associations and a Sports Council had existed in the sixteenth century, there would have been an outcry from the K.T.A.¹ and the K.I.T.C.² at the threat to a "great national British sport, vital to the formation of character in our youth, and essential to the preservation of the horse breeding industry"; and the taxpayer would have been paying for tournament grounds, equipment, and the fees of voluntary coaches for the past four centuries. Or take falconry, killed in the sixteenth century by the development of the fowling piece. If today's British Falconry Club (yes, there is one) were to argue that it was nationally important to keep up the breeding of falcons in numbers above the actual demand for them, how many people would take it seriously?

"INTERNATIONAL SPORTMASS" AND POLITICS

But what about our prestige in international sports? Are we to withdraw from the Olympic Games, the Davis Cup, International Soccer? Why not? Few genuine amateurs (paying all their own expenses, earning nothing out of such activities as sports writing or advertising sports equipment) compete today. That country therefore wins which can spend most on the lengthy, scientific training of star performers. As in armaments, the richest countries will outspend and outclass all comers. In any case, the end product of such organization is not sport but what we may call "International Sportmass"—the mass product of a national sports industry organized to uphold prestige.

UNESCO, in *The Place of Sport in Education*, warns against the dangers of ideological warfare in sports: "The Olympic Games are now regarded by many merely as a testing ground for two great political units." The German expeditionary force to the Helsinki games cost £210,000 (thrice that of the British), because Bonn believed in the prestige value of the reappearance of a German Olympic team in international ideological sports warfare. Political lobbying begins as soon as any State finances sport. As Alex Natan (former world record sprinter) has written³, national sports federations have only one right left: to

¹ Knights Tournament Association. ² Knights International Tournament Committee.

³ In *Sport and Society* (Bowes & Bowes, 1958).

select the entrants. In other respects, political pressures are sports-wide and world-wide. In South Africa, no coloured man can enter a national team; elsewhere, no white man. Israel will not enter an Arab; the Arabs no Jew. In South America, barbed wire fences protect foreign teams from infuriated local nationalists. In the U.S.A., athletes enjoy full university scholarships only so long as they are likely to uphold U.S. prestige, and are conditioned by assembly-line training—Sportmass—which has nothing in common with leisure time relaxation.

In a pre-war British amateur air race, Audrey Sale Barker dropped out of the race to render first aid to a rival competitor who had crash-landed. Times have changed: because the interests of national car industries are at stake, the most terrible accident at Le Mans does not prevent competitors from completing the course. Behind the Iron Curtain, the Sports Commissar has full control, under sanction of reprisals, over all "State amateurs", for whom political schooling before each event is part of their training. Today, nations rank according to the degree of interest that their governments take in sport. Even in this country, when a British amateur establishes some new world record, the government may send him on a "goodwill mission" abroad, all expenses paid—to uphold British prestige. The disease of national sports prestige ravages the nations like a mediæval plague. Throughout the world, says Mr. Natan, the only people to deny the political nature of competitive sport are those who have (administrative) positions in sports associations. There are logical reasons against unilateral international disarmament: are there any such against unilateral withdrawal from international sports contests?

Both major political parties are, more or less, committed to variations on the previously described ideas for a Sports Council. *The Challenge of Leisure* (Conservative Political Centre, 1959) recommends a Sports Council whose grants "could usefully grow to something like £5 millions a year." *Leisure for Living* (Labour Party, 1959) promises outright that "a Labour government will make available to the Sports Council an initial (*sic*) sum of not less than £5 millions for capital expenditure and administrative expenses and thereafter such yearly sums as will enable it to do its job adequately." ("Parkinson, art tha sleepin' there below?").

We have not (perhaps) actually reached the stage where there is a soccer, cricket, or racing "vote", but in view, first, of the several millions who, for the time being, still participate in or watch these sports and, secondly, of the influential associations which organize them, the creation of a grant-giving body might

speed the emergence of sports "votes". Team sports enlist most emotional support among those at present over 30 years old—a majority of the population. With the passing of the years, the rising generation under thirty who, broadly, prefer individual sports will become the majority, so that the emotional support for the entertainment games may correspondingly decrease. This should encourage taxpayers to maintain a holding action against a grant-giving body. If voluntary enthusiasm is ready to support only 20 League clubs in one Division, why maintain 92 clubs in four Divisions? There is, of course, nothing to prevent the devotees of soccer, or any other game, from using intelligent promotion (like Golf Foundation Ltd.) to attract the young; but their success should depend on the appeal of their game and not on the taxpayer's bounty.

Finally, betting. In order to help horse-racing to survive, the government has committed itself to a levy on bookmakers, expected to bring in about £1,250,000 a year. *The Guardian* expressed the feelings of many when it commented:

... One can see a pattern emerging, and dislike it. First comes a sport, played for its own sake and paid for by the players; then the game becomes a public spectacle, costly to run but paid for by the spectators; then a gambling industry rears itself on the spectacle; finally the gambling industry is called on to meet the costs which have risen beyond what spectators are willing to pay. Football is already drawing money from the pools (for the copyright of the League fixtures list) . . . What next? The pools already offer a form of gambling on cricket. Will the struggling county clubs try to tap them for support?

SPORTS AND EDUCATION

The argument that, at home, we should play the games that we want to and can afford and that, abroad, we should withdraw from International Sportmass is confused by the educational aspects of physical recreation.

There are estimated to be over 3½ million young people in the 15 to 20 years age-group today, and this total is expected to rise to a peak of over 4½ millions in 1964. Of these, it is believed that at present only a quarter continue to play games after leaving school at 15, or after secondary school. The recent Albemarle Report (*The Youth Service in England and Wales*), after painting a moving picture of the avoidable juvenile delinquency and disorientation among many of the young, pertinently asks:

The State makes extensive provision for social development, parallel with its provision for intellectual development, up to whatever age young people remain in full-time education: is it right that this social provision should end so abruptly for the less intellectual, simply because they have been withdrawn from formal education?

It is said that in a recent year the cost of hooliganism in smashed street lamps, damage to telephone booths, railway compartments, public parks and so forth totalled £10 millions. It is urged that today's juvenile delinquent may become tomorrow's criminal, and that a substantial part of the £11 millions a year spent on keeping adult criminals in prison might be avoided by the provision of better facilities for youthful recreation. Assuming that to be true, the taxpayer might legitimately be asked whether he wishes more of his money to be spent on crime detection and prisons or more to be spent on recreational facilities *as part of primary and secondary education*. The argument against subsidization of declining sports and against participation in International Sportmass is an entirely separate issue.

It is, however, probable that many school-leavers cease to play games, not so much because sports facilities are, in general, so inadequate as because they cease to be in contact with the ready-made organization of games that exists in schools. On the question whether the U.K.'s outdoor playing space is adequate, experts differ. The National Playing Fields Association has spent over £1½ millions of voluntarily contributed money since 1955 on the provision of over 10,000 football, cricket, tennis, hockey and other grounds. It calculates that the present average provision of public playing space is less than 2 acres for every 415 playing members of the population and that this ought to be trebled. On the other hand, the Birmingham University Physical Education Department argues¹ that the U.K.'s outdoor games facilities are "perhaps just adequate". Moreover, there are in Britain probably more privately-owned playing areas than in any other country. Although they are often used only once a week, "a gross wastage", they nevertheless relieve pressure on the public facilities at peak hours.

Whether or not the amount spent by the central and local governments on recreational facilities is adequate, it is not negligible, and is rising year by year:

Local Authorities are receiving loan sanctions from the government for parks, open spaces, swimming baths, physical training and recreation at the rate of about £4½ millions a year.

Local Education Authorities: In 1950, expenditure on social and physical recreation (centres, training courses, playing fields, swimming baths, camps) was £2·2 millions. Expenditure in 1960 will be £6 millions.

¹ In *Britain and the World of Sport* (University of Birmingham, 1956).

Ministry of Education: 1950 expenditure on grants for playing fields, coaching in athletics, fencing, hockey, tennis, swimming, etc. (including £55,000 to the Central Council of Physical Recreation): £218,000. In 1960 the sum is £250,000 (including £140,000 to C.C.P.R.).

The L.C.C. are to develop a 36 acre site at the Crystal Palace as a National Youth and Sports Centre at a cost of £2,185,000.

The Central Council of Physical Recreation, a voluntary body, maintains three National Recreation Centres. In 1958/9 it organized 400 leader and coaching holidays which helped 31,000 young people to learn a new activity or improve their performance, and 175 demonstrations attended by 78,000 people. Its coaching covers most sports, including, one is glad to see, sailing and mountaineering. Its total expenditure was £254,419 (of which 49 per cent. was met by the Ministry's grant, the rest by voluntary subscription).

CONCLUSIONS

If we seek to secure the survival of one expensive sport after another by obtaining State grants and/or by encouraging betting as a means of raising funds, four paradoxical consequences may follow:

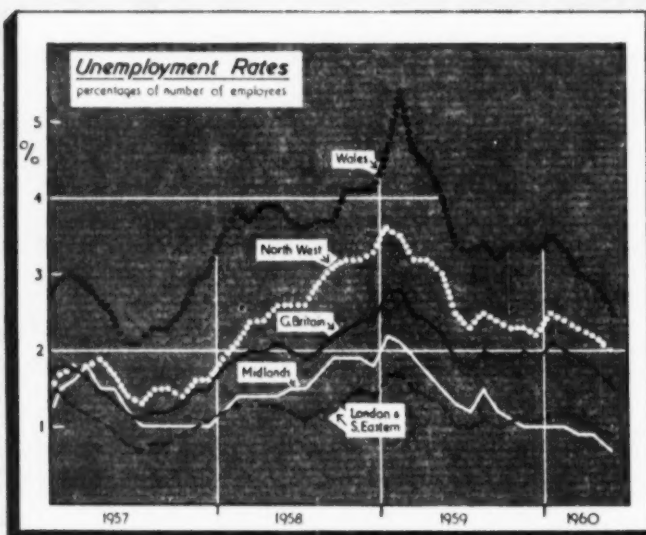
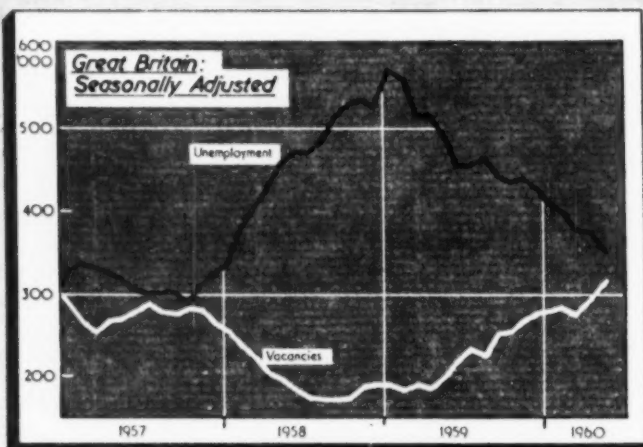
- (1) Gambling and sport will become indistinguishable, or at least inextricable.
- (2) The nineteenth century middle-class ideal of amateur games, played for fun, will be stood on its head. At home, professionalism will be rampant: abroad, we shall have "State amateurs" and International Sportmass.
- (3) Sport will become a political issue and, with an eye to the football, racing or other "votes", the Sports Council's initial £5 millions might be found creeping up to 4.1 per cent. per annum, as has expenditure on the social services.¹
- (4) The ability of taxpayers to spend on the sports they enjoy will be decreased in order to subsidize those that they do not enjoy.

London.
May, 1960.

Jossleyn Hennessy.

¹ Expenditure (at 1954 prices) on all social services rose from £1,757 millions in 1949 to £2,407 millions in 1958—an average of 4.1 per cent. p.a.

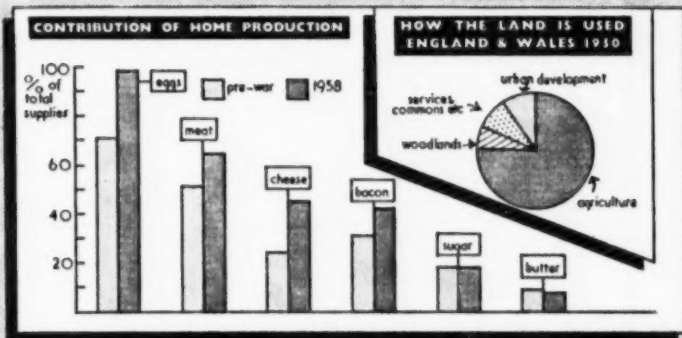
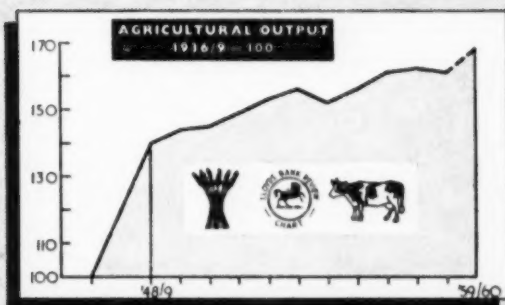
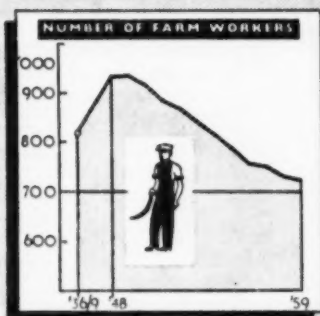
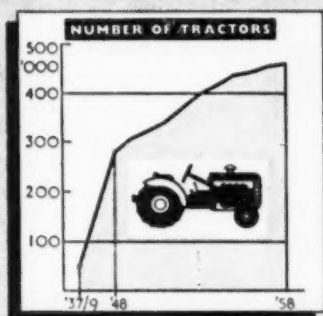
UNEMPLOYMENT



SOURCE: Ministry of Labour Gazette

In spite of the various restrictive measures adopted in recent months unemployment showed a further decline in May to a national average of only $1\frac{1}{2}$ per cent. In London and South-East and in the Midlands, the rate was under 1 per cent.

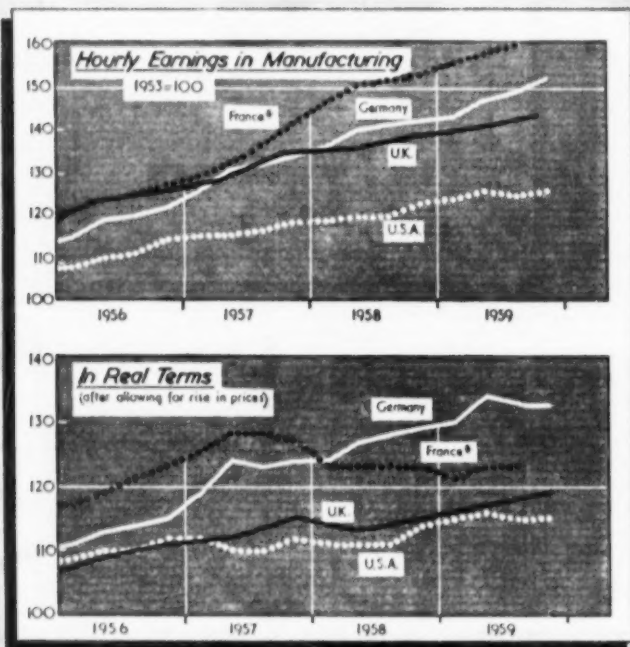
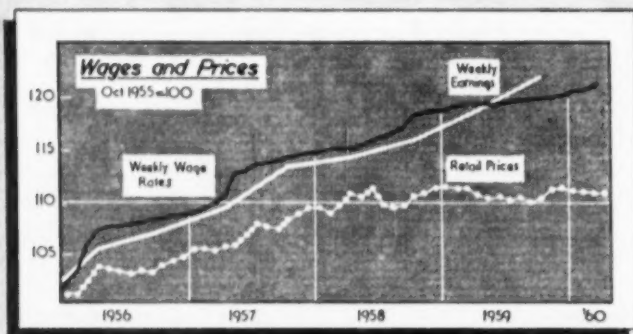
FARMING TRENDS



Agricultural Statistics
SOURCES: "Major Land Uses of Great Britain" (Best)
Farming Facts

The above charts illustrate some of the major changes in British agriculture since pre-war. With a shrinking labour force the number of tractors has increased nearly ten-fold, while production is up by two-thirds.

WAGES

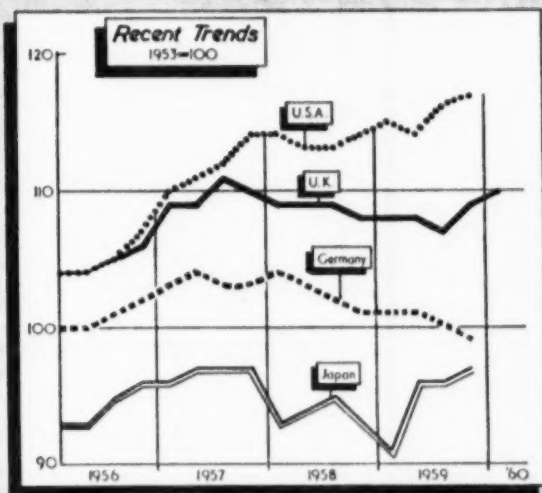
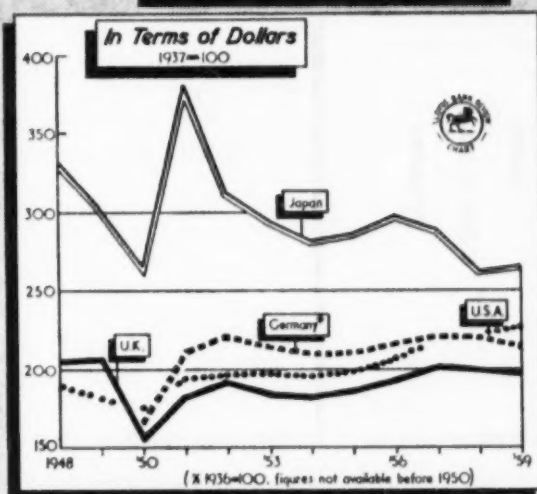


SOURCES: Ministry of Labour Gazette
OEEC Statistical Bulletin

■ wage-rates

While retail prices have been unchanged on balance since the spring of 1958, wage-rates have risen by over 5 per cent, and weekly earnings by substantially more.

EXPORT PRICES

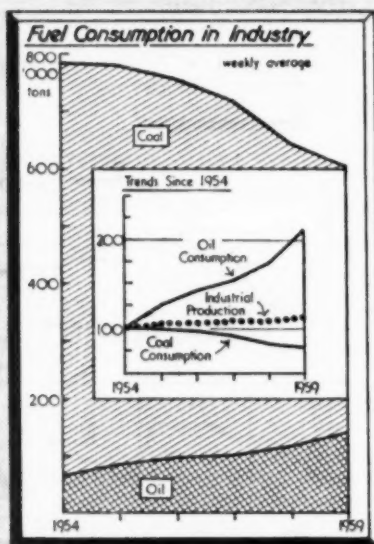
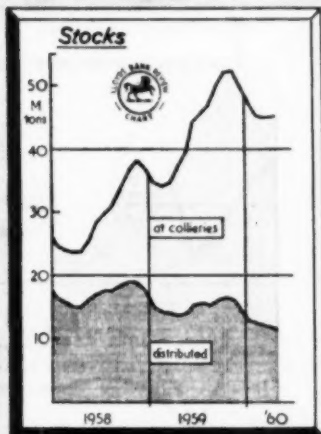
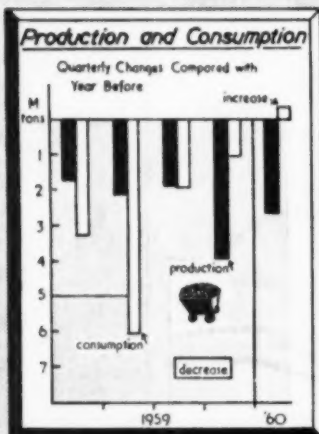


SOURCES: I.M.F. Financial Statistics
UN & OEEC

Note: Indices for USA are for finished manufactures

Compared with 1937, British export prices last year had not quite doubled in terms of dollars (a basis which takes account of devaluation in cheapening our products). This was less than the increase in either Germany or the U.S.A. Since 1953, however, our competitive position has weakened somewhat in relation to Germany, though fully maintained *vis-à-vis* the U.S.A.

COAL



SOURCES: Ministry of Power.
Monthly Digest of Statistics.

With coal production falling, consumption has this year shown a slight recovery, and there has been some reduction in the unsold stocks accumulated in connection with the pit-closing programme. Although the quantity of oil used by industry has doubled in five years, coal still remains the prime source of energy and power.



Earning our keep

AGRICULTURAL MACHINERY

Although mechanized farming was largely developed in the U.S.A., our own agriculture is today more intensively mechanized than any other country's. Britain was once noted for exporting the finest plough-horses. Now we export tractors (more last year than the whole of the rest of the world put together) and combine harvesters, grass and grain driers, ploughs, cultivators - all the mechan-

ical aids on which the world's increasing output of food depends.

In 1959 this trade contributed £105,000,000 to our foreign exchange earnings, almost enough to cover all our imports of wheat. Of the firms engaged in it a great many are customers of Lloyds Bank, which provides them with the financial services they need - at home and, through its overseas connections, in any part of the world.

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